

**SOUTH UTAH VALLEY
MUNICIPAL WATER ASSOCIATION**

**BASIC FINANCIAL STATEMENTS
WITH
ACCOUNTANTS' COMPILATION REPORT
YEAR ENDED JUNE 30, 2005**

**SOUTH UTAH VALLEY MUNICIPAL WATER ASSOCIATION
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2005**

	<u>Pages</u>
ACCOUNTANTS' COMPILATION REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	MD&A 1 thru MD&A 6
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	2
Statement of Activities	3
Fund Financial Statements:	
Balance Sheet – Governmental Funds	4
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	5
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	8
Notes to the Financial Statements	9-14



LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' COMPILATION REPORT

August 2, 2005

Board of Directors
South Utah Valley Municipal Water Association
40 South Main
Spanish Fork, Utah 84660

Board Members:

We have compiled the accompanying basic financial statements of South Utah Valley Municipal Water Association, as of June 30, 2005, and for the year then ended, as listed in the foregoing Table of Contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Larson & Company
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of South Utah Valley Municipal Water Association's (SUVMWA) financial performance provides an overview of the Entity's financial activities for the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

- The Entity's net assets remained virtually unchanged as a result of this year's operations. Net assets of our governmental activities increased by \$59,044, or nearly 9 percent.
- During the year, the Entity had expenses that were \$59,044 less than the \$147,264 generated in other revenues for governmental programs. This compares to last year, however, when expenses less revenues by \$60,141.
- In the Entity's revenues increased \$60,682 (or 41 percent) while expenses increased by 70 percent.
- The general fund reported a surplus this year of \$32,097 with \$155,166 being reserved for future acquisitions.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Entity as a whole and present a longer-term view of the Entity's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Entity's operations in more detail than the government-wide statements by providing information about the Entity's most significant funds. The remaining statements provide financial information about activities for which the Entity acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Entity as a Whole

One of the most important questions asked about the Entity's finances is, "Is the Entity as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Entity as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Entity's net assets and changes in them. You can think of the Entity's net assets—the difference between assets and liabilities—as one way to measure the Entity's financial health, or financial position. Over time, increases or decreases in the Entity's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors,

however, such as changes in the Entity's membership and the condition of the members financial position, to assess the overall health of the Entity.

In the Statement of Net Assets and the Statement of Activities, The Entity is reported as Governmental activities:

- Governmental activities—The Entity's basic services are reported here. Assessments from member cities finance most of these activities.

Reporting the Entity's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds. The Entity only has one fund in the governmental funds. However, the board of directors may establish many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain grants, and other money.

- Governmental funds—Most of the Entity's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Entity's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Entity's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

THE ENTITY AS A WHOLE

The Entity's combined net assets were virtually unchanged from a year ago—increasing from \$608,219 to \$667,263. Our analysis below focuses on the net assets and changes in net assets of the Entity's governmental activities.

Net Assets
June 30, 2005 and 2004

	Governmental Activities	
	2005	2004
Current and other assets	\$ 187,263	\$ 128,219
Capital assets	480,000	480,000
Total assets	667,263	608,219
Other liabilities	-	-
Long-term liabilities outstanding	-	-
Total liabilities	-	-
Net assets:		
Invested in capital assets, net		
of related debt	480,000	480,000
Reserved	155,166	-
Unrestricted	32,097	128,219
Total net assets	\$ 667,263	\$ 608,219

Net assets of the Entity's governmental activities increased by 9 percent (\$608,219 compared to \$667,263). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from a \$128,219 surplus at June 20, 2004, to a \$32,097 surplus at the end of this year.

- This change in unrestricted governmental net assets arose primarily because of the entity reserving \$155,166 for the future acquisition of water shares.

Statement of Activities

	Governmental Activities	
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 70,841	\$ 86,252
Operating grants and contribs	-	-
Capital grants and contribs	75,000	-
Unrestricted investment earnings	1,423	330
Total revenues	147,264	86,582
Expenses:		
General government	88,220	26,441
Total expenses	88,220	26,441
Increase in net assets before transfers	59,044	60,141
Transfers		
Increase in net assets	59,044	60,141
Net assets - beginning	608,219	548,078
Net assets - ending	\$ 667,263	\$ 608,219

The Entity's total revenues (excluding special items) increased by 41 percent (\$60,682). The total cost of all programs and services was increased this year by \$61,779 with no new programs added this year. The factor that added to this increase was due to a regional waste water treatment and reuse study.

The following table presents the cost of each of the entity's largest expenses.

Governmental Activities

	2005	2004
Expenditures		
Professional Services	\$ 82,210	\$ 22,777
Salary	3,695	1,765
Water Assessments	1,753	1,235
Miscellaneous	218	205
Postage	37	172
Payroll Taxes	594	164
Advertising	32	123
Total Expenditures	<u>\$ 88,539</u>	<u>\$ 26,441</u>

Professional services had the largest increase due to the waste water treatment and reuse study

THE ENTITY'S FUNDS

As the Entity completed the year, its governmental funds reported a combined fund balance of \$667,263, which is slightly above last year's total of 608,219.

- The entity included \$20,000 budgeted for legal fees and consulting fees for the TMDL study. Due to the fact that two members (Genola, and Goshen) would not benefit from this study they were not charged for it.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the Entity had \$480,000 invested in capital assets, all capital assets were water shares as shown below.

Capital Assets

	2005	2004
Capital Assets		
Water Shares	\$ 480,000	\$ 480,000
Total Capital Assets	<u>\$ 480,000</u>	<u>\$ 480,000</u>

There have not been any major additions in the current year, and the entity carries no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The board of directors considered many factors when setting the fiscal-year 2005 budget. These include the possible need for changes that will be forthcoming due to projected population growth in south Utah County. With this increased population come the need for more water, sewer, infrastructure, and possible future sewer regulations.

CONTACTING THE ENTITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and board members with a general overview of the Entity's finances and to show the Entity's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the SUVMWA at PO box 412, Spanish Fork, UT 84660.

BASIC FINANCIAL STATEMENTS

South Utah Valley Municipal Water Association
Statement of Net Assets
June 30, 2005

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 187,263
Capital assets (net of accumulated depreciation):	
Water rights	480,000
Total Assets	<u>667,263</u>
 NET ASSETS	
Invested in capital assets, net of related debt	480,000
Restricted for:	
Inventory	-
Reserved	
Future Acquisitions	155,166
Unrestricted	32,097
Total net assets	<u>\$ 667,263</u>

South Utah Valley Municipal Water Association
Statement of Activities
For the Year Ended June 30, 2005

Function/Programs Primary Government:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets Primary Government
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 88,539	\$ 71,160	\$ -	\$ 75,000	\$ 57,621
Total Governmental Activities	<u>88,539</u>	<u>71,160</u>	<u>-</u>	<u>75,000</u>	<u>57,621</u>
Total Primary Government	<u>\$ 88,539</u>	<u>\$ 71,160</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>57,621</u>
General Revenues:					
Unrestricted investment earnings					1,423
Total General Revenues					<u>1,423</u>
Change in Net Assets					59,044
Net Assets - Beginning					608,219
Net Assets - Ending					<u>\$ 667,263</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

South Utah Valley Municipal Water Association
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2005

	General Fund
ASSETS	
Cash and cash equivalents	\$ 187,263
Total Assets	<u>187,263</u>
LIABILITIES AND FUND BALANCES	
Fund balances:	
Reserved	155,166
Undesignated	<u>32,097</u>
Total Fund Balances	<u>187,263</u>
Total Liabilities and Fund Balances	<u>\$ 187,263</u>

**South Utah Valley Municipal Water Association
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005**

Total fund balances - governmental fund types:	\$ 187,263
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>480,000</u>
Net assets of government activities	<u><u>\$ 667,263</u></u>

South Utah Valley Municipal Water Association
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund
REVENUES	
Intergovernmental revenues	\$ 75,000
Charges for services	71,160
Interest income	1,423
Total Revenues	<u>147,583</u>
EXPENDITURES	
Current:	
General government	88,539
Total Expenditures	<u>88,539</u>
Excess Revenues Over (Under)	
Expenditures	<u>59,044</u>
Other financing sources (uses)	
Excess of Revenues and Other Sources	
Over (Under) Expenditures and Other Uses	59,044
Fund Balances - Beginning	128,219
Fund Balances - Ending	<u><u>\$ 187,263</u></u>

South Utah Valley Municipal Water Association
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

No changes noted

Net changes in fund balances - total governmental funds	<u>\$ 59,044</u>
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Change in net assets of governmental activities	<u><u>\$ 59,044</u></u>
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South Utah Valley Municipal Water Association
Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over(Under)
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ -	\$ -	\$ 75,000	\$ 75,000
Charges for services	31,075	31,075	71,160	40,085
Interest income	-	-	1,423	1,423
Total Revenues	<u>31,075</u>	<u>31,075</u>	<u>147,583</u>	<u>116,508</u>
EXPENDITURES				
Current:				
General government	31,075	31,075	88,539	57,464
Total Expenditures	<u>31,075</u>	<u>31,075</u>	<u>88,539</u>	<u>57,464</u>
Excess Revenues Over (Under)				
Expenditures	-	-	59,044	59,044
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Impact fees	-	-	-	-
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources				
Over (Under) Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>59,044</u>	<u>59,044</u>
Fund Balances - Beginning	128,219	128,219	128,219	
Fund Balances - Ending	<u>\$ 128,219</u>	<u>\$ 128,219</u>	<u>\$ 187,263</u>	<u>\$ 59,044</u>

**SOUTH UTAH VALLEY MUNICIPAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

South Utah Valley Municipal Water Association (SUVMWA), a separate legal Entity and political subdivision of the State of Utah, was formed by an agreement dated November 8, 1994, pursuant to the provisions of the Utah Interlocal Co-Operation Act. SUVMWA's membership consists of 10 municipalities (the Members). SUVMWA's purposes include the following: 1) securing reliable sources of culinary and secondary irrigation water for the Members, 2) protecting, fostering, and conserving the benefits of culinary and secondary irrigation water, 3) assisting Members in providing reliable, competitive, low-cost culinary and secondary irrigation water to citizens of the Members, 4) evaluating, planning, financing, developing, acquiring, constructing, reconstructing, improving, enlarging, bettering, operating, and/or maintaining one or more Projects for the benefit of all or some of the Members, and 5) facilitating the purchase, sale, lease, exchange, transfer, development, distribution, and/or delivery of culinary and secondary water between two or more Members. The following governmental entities are SUVMWA Members:

Elk Ridge Town
Genola Town
Goshen City
Mapleton City
Payson City

Salem City
Santaquin City
Spanish Fork City
Springville City
Woodland Hills City

The accounting policies of SUVMWA conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities,

**SOUTH UTAH VALLEY MUNICIPAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

governmental activities are presented using the current financial resources measurement focus as defined in item a. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting Entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting Entity are organized into funds, each of which

**SOUTH UTAH VALLEY MUNICIPAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Entity or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting Entity are described below:

Governmental Funds

General Fund

The General Fund is the only fund of the Entity and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Major and Non-major Funds

The general fund is the only fund and is always a major fund.

C. Applicable Accounting Standards

The financial statements of SUVMWA have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

D. Assets, Liabilities and Equity

1. Cash and Cash Equivalents

SUVMWA considers cash and cash equivalents to be cash on hand, demand deposits, and all short-term investments with original maturities within three months or less from the date of acquisition.

**SOUTH UTAH VALLEY MUNICIPAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

2. *Fixed Assets*

The accounting and reporting treatment applied to the fixed assets associated with a fund are determined by its measurement focus.

Fixed assets used in governmental fund types are recorded in the General Fixed Assets Account Group at cost or estimated historical cost if purchased or constructed. No depreciation has been provided on general fixed assets.

3. *Use of Estimates*

The preparation of financial statements, in conformity with *Generally Accepted Accounting Principles*, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary Information*

Budgetary procedures for SUVMWA have been established by Utah State statute in the Fiscal Procedures Act for Utah Cities. The basis of accounting applied to each fund budget is the same basis as the related fund's financial statements. In accordance with State law, all appropriations lapse at the end of the budget year. Accordingly, no encumbrances are recorded. At its option, SUVMWA may permit its expenditure accounts to remain open for a period of 30 days after the close of its fiscal year for the payment of approved invoices for goods received or services rendered prior to the close of the fiscal year.

**SOUTH UTAH VALLEY MUNICIPAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2005**

Under Utah Code, SUVMWA's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the Code for certain events.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH

The Entity maintains a cash account that is available for use by all funds. No other investments are held by the Entity. Deposits are not collateralized nor are they required to be by State statute.

SUVMWA follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the depositing of Association funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also defines the types of securities allowed as appropriate temporary investments for SUVMWA and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Deposits

Custodial Credit Risk is the risk that, in the event of a bank failure, the Entity's deposits may not be returned to it. The Entity does not have a formal deposit policy for custodial credit risk. As of June 30, 2005 \$87,263 of the Entity's bank balance of \$187,263 was uninsured and uncollateralized.

At June 30, 2005, the carrying amount and the bank balance of the Entity's bank deposits was \$187,263.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair

**SOUTH UTAH VALLEY MUNICIPAL WATER ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005**

value of an investment. The Entity's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the fund to be invested.

Credit Risk – The Entity follows the requirements of the Utah Money Management act (Section 61, chapter 7 of the Utah Code) in handling its depository and investing transactions. Entity funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the Entity to invest in the Utah Public Treasurers' Investment Fund (UPTIF), trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligation of government entities within the State of Utah. The UPTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the UPTIF. The degree of risk of the UPTIF depends upon the underlying portfolio. The act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The Entity considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The Entity has no investment policy that would further limit its investment choices. The UPTIF is unrated. Currently the Entity does not have any investment with the UPTIF.

B. CHANGES IN CAPITAL ASSETS

Changes in the Capital Assets for the year ended June 30, 2005, are as follows:

	July 1, <u>2004</u>	<u>Additions</u>	June 30, <u>2005</u>
Water shares	\$ <u>480,000</u>	\$ <u>0</u>	\$ <u>480,000</u>
Totals	\$ <u>480,000</u>	\$ <u>0</u>	\$ <u>480,000</u>